

## Handling the economic damage

The epidemiologists advising the government have succeeded in persuading them to lock down as much of the country as possible. The aim is to stop the spread, and so reduce the numbers needing hospital treatment. The earlier policy of trace and isolate did not prevent escalation, though it may have slowed the progress of the disease as the advisers hoped.

Given this, the best outcome now must be a severe but short lived clampdown with a resulting drop in numbers getting the disease, followed by some relaxations to get more people back into work. The worst outcome would be little progress with getting numbers down and a decision to carry on with many closures in the hope that the policy will sometime start to work as planned. A middle course is likely with a longer period of clampdown and some success with braking the rate of increase.

What does this do to the economy? More than 40% of it, the private sector not involved in food and food retail , pharmaceuticals, utilities and other basics will take a big hit. The obvious sectors that have been closed down will lose all their revenue, but it is likely new cars, new homes, discretionary purchases will all be cut back, some severely. We will see falls in output and incomes of a magnitude we have never seen before in a recession. They have come on us suddenly.

If the government aid for companies is administered well and promptly, and extended to the self employed, then many businesses will survive and be available to supply and serve us again as soon as restrictions are lifted. If the banks use the government guarantees well and make some of the ample liquidity to them available as affordable loans, that too will help see many more companies through the low or no turnover phase.

It is going to be much easier for companies to revive and bounce back if the gap is not too long. More visibility on timetables would be helpful to those deciding whether their business can battle on and on how much they need to borrow to bridge the gap.

The government should give us scenarios based on better control of the virus to give some hope that these restrictions are temporary. They can say that the short term closure model is more likely if we all co-operate and observe as much social distancing and isolation as our roles allow.

As of today we face the loss of a large number of self employed businesses without more financial support, and even the loss of businesses covered by the financial support scheme announced who nonetheless are losing so much business from virus related effects and have large non employee costs..

It is nonetheless the case that the UK economy will lose a lot of output from March onwards and that cannot return until the bans are lifted. Jobs will also be lost if the government financial support is not readily available at scale. The longer the closures and bans continue, the more

businesses will give up and make their staff redundant to stop the losses.

Commercial rents will fall, dividends will be cut, pension funds will have much bigger deficits and businesses in trouble will have problems raising capital. There will be large falls in investment.

This is now happening all over the advanced world where similar policies are being followed. I wish the experts and governments every success in limiting this disease. They also need to recognise that the serious economic damage being done to try to arrest the progress of the disease is going to get very severe unless there is a relatively short time limit on the shut downs and financial help for all in the meantime.

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## Heading for a big economic downturn worldwide

The new Governor and the Bank of England have risen to the task in the last few days. They have thrown everything into keeping banks and markets liquid. They are offering huge facilities for banks to lend on to the many individuals and companies that will need credit, and have now signalled they want gilt yields to stabilise. They have announced substantial new buying of government bonds, and operated at scale on Friday to stabilise the market of gilts where prices had been falling. The commercial banks must now show speed and purpose in offering loans to companies that need them, and need to curb their appetite for ultra high rates on the money they advance as overdrafts.

The government last week upped their fiscal response to try to match the challenge. I have always argued the priority is to avoid mass unemployment from widespread redundancies. The new scheme to burden share on wages should go a long way to help businesses keep their teams together while we await an upturn in demand. The business rate holiday for the worst affected sectors and the direct cash grants also help. We still have not seen any decent response for the self employed, who are also an important part of our economy and should be helped.

Some argue that the large sums the government plans to borrow and the huge sums the Bank of England is committing to this task are excessive and dangerous. In a situation where there would be a very large fall in economic output some offsetting action is needed. Millions of people are temporarily banned from working in their jobs or have to stay at home to look after children or to isolate themselves so the government and Bank do need to offset some of this unprecedented hit to jobs, incomes and activity.

As the government has decided to close down a large part of the private sector, banning tourism, leisure, much travel, entertainment and hospitality,

it needs to see it has to do more to plan for the consequences. Lots of discretionary spending areas from new homes and cars to clothes and many household appliances and furnishings will also drop sharply or effectively be banned.

Meanwhile there will be a continuing surge in demand for more food, food retail and home delivery. As many people used to have more than 5 out of their 21 meals a week at their place of work or in a restaurant or fast food place there will be a big transfer of food demand to the supermarket as they eat at home. This requires switching food from caterers products to retail products and needs volume changes to the delivery system to households. There will be strong demand for smartphones, laptops and digital services, for home entertainment and for business digital systems. There will be more strain on domestic utilities as families stay home and load the broadband and electricity networks.

The government is busy trying to divert more resources into NHS and social care. It is buying up bed spaces, hiring in more medical staff, offering to buy huge quantities of tests, ventilators, pharmaceuticals and protective clothing to handle a big outbreak. It also needs to help the private sector direct resource to home deliveries for all who have to self isolate, to ensure quick adjustment to the new patterns of food buying and consumption and the delivery of drugs where prescribed..

As the government is discovering, if it disrupts one thing like closing schools it has to help ensure enough people can still get to work in all the areas that do need to continue. As it closes restaurants, school lunches and works canteens it has to ensure all that food can be replaced through supermarket purchases. As it takes out train and tube travel and slashes services, it has to leave enough working for the key workers to get to the hospitals, broadband systems and electricity grid to keep things working.

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## [Flight out of Peru](#)

Following extensive lobbying by many people the FC0 has said it hopes Peru will now allow a flight to get UK citizens home who want to soon. They are trying to sort one out.

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## [Letter to Matt Hancock](#)

Dear Matt

When you briefed MPs this week you stressed that the government does not have all the answers and is open to good ideas from colleagues that could alleviate the problems emerging. MPs are well placed to pick up details of what is going wrong or what needs government help or clarification. There are four main areas where I would like to offer some suggestions.

1. The need for volunteers to help where services are overwhelmed. We have the promise that many people in jobs where the business has effectively been closed will be able to keep their jobs pending re-opening thanks to pay mainly from the state. We could ask some of them to spend part of their time helping in the community. Immediately we need more people capable of doing shopping for the elderly or self isolated. Maybe some could be lent to logistics and food companies and food retailers under strain from extra demand. I doubt there would need to be any compulsion, with many companies and individuals in enforced idleness being willing to help in positive and appropriate ways. There would need to be definition of what should be unpaid volunteer work and what work should be paid for by the temporary alternative employer.
2. The need to match the scheme for the employed in affected areas with a top up income from the Tax and National Insurance system for the self employed. The Tax Authorities know who they are, what they earned last year, and the number of their bank account. The self employed should be able to notify the authorities of the extent of the downturn of their income from turnover loss and get a tax rebate or reimbursement to top their income up to 80% of past levels as long as they were still offering their service and relying on it for their livelihood. Any self declarations that turned out to be false would result in subsequent tough penalties and their publication.
3. Food supply. It looks as if the main problem is aggressive hoarding, with stories of people buying abnormally large quantities and buying up new freezers to store it in. On top will be some genuine increase in supermarket demand as people who before had some of their meals out in a staff canteen or at events and working meals instead eat all those meals at home. This latter does not expand the total demand for food but means diverting food from catering trade wholesalers to supermarket retailers immediately. The government should toughen its advice to supermarkets to impose appropriate controls on volume buying, and state that the police will stand behind the supermarkets in enforcing sensible measures to limit greedy behaviour. If necessary the Bill should grant enforcement powers for temporary supermarket ration rules.
4. Greater conversion to on line and remote solutions to service provision. You have done a great job persuading the NHS to do much more on line or by phone at a time when exposing ill people to others who may have this virus would not be helpful. I would suggest that state education makes a more concerted effort to put educational materials and lessons on line so this generation of GCSE and A level pupils do not miss out on the remaining weeks of their courses and formal revision. There would need to be help for those pupils who lack internet access at home through the loan of machines or opening school IT areas for their attendance with suitable segregation of pupils.

I will set out more detail behind these proposals in letters to the lead secretary of State in each case. I am writing to you in the first instance knowing how central you are to the total policy and responding to your invitation.

Yours ever

John

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## Help for childminders

Many childminders have written to me asking what help there can be for self employed people. I am asking the government again to put in an Income support scheme for the self employed, and have renewed this request today.